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ABSTRACT

While traditional BPO has been an 'as-is' business process execution by a vendor with minimal client intervention with cost benefit being the principal motive, BPM, on the other hand, is the management of processes for the client where the objective is to deliver both cost as well as value to the process stakeholders. Thus success metrics of a vendor's ability to execute BPM projects are likely to be significantly different from traditional BPO projects. Practitioner articles mention about specific vendor attributes that are crucial; however, the process that enables successful transition from BPO to BPM initiatives is not theoretically understood. Drawing from past research we develop a conceptual model and validate it with a case developed in the context of an Indian BPO vendor. The findings highlight the process through which reciprocal communication and shared understanding of BPM objectives are developed, leading to vendor's success with BPM initiatives.

KEYWORDS

Business Process Outsourcing, Business Process Management, Information Systems Success, Off-Shoring.

INTRODUCTION

Outsourcing of business processes for cost arbitrage and efficiency of operations is not new. Many firms outsourced their payroll function as far back as 1980's, though it was in the nature of in-sourcing, where the vendor providing the outsourced service was close to the client and problems could be ironed out with face-to-face contacts. The trend towards outsourcing technology to vendors outside the country began in the 1990s, with the race for Y2K compliance. Many US and European firms faced with problems of fixing their legacy applications outsourced the work to Indian companies. The successful transition to the new millennium confirmed offshore resources as a viable economic and efficient approach to a wide range of information-based activities and marked the start of the off-shore business process outsourcing wave.

The initial trend towards BPO has been the transfer of a traditional business function 'as-is' to the offshore vendor, with the vendor providing the same outputs to the client at a cheaper cost. For example, in the insurance industry, BPO vendors (service providers) are working on claims processing, policy management, premium collection etc., basically closed insurance products that are routine in nature. Clients outsource such commodity processes with the motive of a cost-arbitrage, benefiting from cheap labor. In some instances, arrangements exist whereby sudden spurt of traditional administrative work is passed on the offshore vendor for a quick turnaround. A bulk of the offshore outsourcing is still concerned with such work.

However, the BPO landscape is changing. Countries that provide cost arbitrage are losing their competitive edge to other cheap labor destinations. A case in point is India. Rising salaries of technical staff and high turnover of staff who move to new jobs at short notice is slowly eroding the Indian BPO vendor's cost-arbitrage edge. Companies in low cost countries like Philippines, East European countries like Romania, China etc. are targeting the BPO market. The other change in the BPO

landscape is a structural shift. Companies outsourcing business processes are now keen on having off-shore partners who can add value to the non-core operations of the company and enable the company to retain competitive advantage in the fast changing business scenario. BPO stalwarts like Infosys in India are now stressing on Business Process Management (BPM) as the road that off-shore vendors of outsourced work must take in order to remain competitive.

BPM differs substantially from BPO in that while BPO is an 'as-is' business process of the client executed by the vendor, with minimal client intervention, BPM must address support on the transaction side, collaboration on the human side, and interaction on the workflow side. Technology plays a more prominent role in BPM in that it must continually support re-engineering of processes and align processes to the needs driven by business rule/strategy changes. The parameters of success of such initiatives therefore change drastically because such processes would normally be core processes that have a greater impact on the organisation's bottom line compared to commodity non-core processes that fall in the realm of traditional BPO. Thus process and operational metrics such as cycle times, workloads, and individual performance, which do not fall within the ambit of traditional data-centric business processes, become the main focus in process-based organisations. Practitioner articles have appeared mentioning about specific vendor and client attributes that help to drive a BPM initiative. However, the process that leads to the success of the vendor in a BPM initiative is not theoretically understood. Therefore, the research question that we try to address is 'How can a BPO vendor make a successful transition from being a BPO vendor to a BPM collaborator? '

In trying to address the question, we take a positivist approach and draw from prior research on business process re-design, determinants of organisational participation in new technology initiatives, business and IT alignment, and information systems success to develop an a-priori conceptual model to guide the research. We validate the model with a case developed in the context of an Indian BPO vendor.

THEORETICAL BACKGROUND

Markus and Robey (1988) specifically discuss three causal agencies, namely the technology imperative, organizational imperative, and emergent perspectives as necessary ingredients of an effective business process redesign initiative. The emergent perspective postulates that uses and consequences of IT emerge unpredictably from complex social interaction and the knowledge of the interaction process allows outcomes to be partially predictable. The linkage between the social dimension and information technology has been investigated in prior research (Reich and Benbasat, 2000). Internal consistency and external validity of business plans and information technology and a shared understanding of IT and business objectives are stated to be crucial in successful design of information systems. Understanding of current business objectives and shared vision for the utilization of information technology are proposed as the most promising potential measures for short- and long-term aspects of the social dimension of linkage respectively. The time that IS people were involved in new product development was found to be an influential factor in fostering the linkage and communication between the business and the IT managers was the other crucial factor in developing a shared understanding (Reich and Benbasat, 2000). It follows that in the BPM context, the interaction between the client and the vendor assumes importance as an enabler of BPM success, since in BPM, the vendor plays the role of a process consultant in a dyadic collaborative arrangement with the client. On the one hand, the client depends on the vendor to provide technology support for re-engineered processes and on the other hand the vendor depends on the client for support in respect of clear enunciation of the business goals. Past literature suggests that information systems design must be concurrent and the organization should be aligned in the design in order to minimize unexpected impacts (Robey, 1987). Thus in the BPM context, vendors' ability to structure processes iteratively with alignment of the business, technology, and people with the process is expected to lead to the desired impacts of the BPM initiative and vendor success.

Grewal et al (2001) mention that the nature of organisational participation in a new technology based initiative depends on a firm's motivation (efficiency and legitimacy) and ability (learning and IT capabilities). They also mention that the participation goes through the stages of an initial passive participation to more intense exploration and a final expert stage where the all features of the technology are used for efficiency. Based on this premise, this research conceptualizes that the client's learning ability and perceptions of IT Capability would motivate the client to derive maximum efficiency from the out-sourced initiative and lead to participation in different stages of the process life-cycle, facilitating the transition to the matured end-state of a process in a collaborative effort with the vendor. Thus, as organisations with higher perceptions of IT capability and clear business vision would be more inclined to move to the BPM and derive benefit from such a move. The positive influence of persuasion and training on adoption of new technology is also documented in past research (Xia W., Lee G. (2000). It follows that the perception of IT capablity can be driven by the vendor's ability to communicate the potential of the technology and train the client on the new technology. Cultural differences in terms of values and communication

patterns between the client and the off-shore service provider could be a deterrent to shared understanding and may negatively impact project success (Ishman et al (2001). Thus the vendor's ability to bridge the cultural gap with communication and reciprocal client's communication with the vendor becomes a crucial to BPM success.

Kambil and Short (1994) mention that business networks can be represented and analysed by a roles-linkage matrix. Roles are defined as distinct, technologically separable value-added activities undertaken by firms in a given business network. Roles are delineated on the basis of skills and applied knowledge required to perform the activity (role). Linkage is the different ways firms' or individuals manage economic interdependence across value adding roles in the network. Electronic integration has different effects on roles - changing the skill requirements for specific roles and organisational competence. Thus the ability of the client organisation to re-deploy re-engineered processes and allocate re-designed work to employees and customers (in web-enabled processes) associated with the new process would also be a crucial determinant of a BPM initiative. This points to the need for the client organisation to have learning and IT capability to execute process changes during the process life cycle. One of the key challenges in a process driven production environment is to allocate work to people skilled at handling exceptions by executing changes to the process. If an organization does not have an effective way of handling each exceptions, it rather defeats the purpose of the BPM. Thus a conducive organizational and cultural context of the firm, one that facilitates re-deployment of work according to the needs of the changed process becomes crucial. The capability of the organizational environment to support end-user adaptability of the process is also critical because no matter how much analysis is carried out up front, the process models used to drive the business are likely change with the need to handle exceptional cases. A fine balance of control and empowerment, varying the stance to reflect the needs of different parts of the organization and distinct phases of activity within the process therefore becomes a necessary attribute of the client. Thus the vendor may not be able to drive the BPM with a technology supported re-engineered process unless the client can align the affected people to adapt to the requirements of the new re-engineered process(es). On a reciprocal basis, the vendor must be able to support the employees in the client organization by clearly demonstrating the benefits of the new re-engineered process and work with the client to dispel fears and reluctance to switch to the new process.

Past research has conceptualized IS success in terms of the Individual and Organisational Impacts (Delone and McLean, 1992). Individual impact has also been treated as perceived usefulness derived from personal valuations of an IS such as improved individual productivity, task performance, individual power or influence (Rai et al, 2002). In the BPM context, the vendor's ability to demonstrate to the client's employees high value addition to the individual work content in the re-engineered process is therefore expected to enhance perceptions of usefulness at the individual process participant's level and facilitate the organizational transition to the new process. Organisational impact from BPM are value added to the customer and the flexibility of the customer to respond to emergent business opportunities aided by the re-engineered processes. The more specialized and customized the process for client's needs, more the client's dependability on the vendor for technical and process execution support, locking in the client to the vendor. Highly customised processes also call for the vendor's ability to hire and retain highly skilled people who have expertise and/or train new staff in both technology and business domain of the client.

We integrate the above findings from past research into the organisational, technological and emergent perspectives espoused by Markus and Robey, 1988. The organisational perspective assumes an inter-organisational dimension where the vendor's ability to communicate with the client, IT expertise, strategy to hire and retain skilled people, and ability to learn the business domain are crucial. However, reciprocal client attributes such as the ability to communicate with the vendor and its own employees, ability to learn the technology and develop high perceptions of IT capability, and ability to maintain the right balance of control and flexibility in governance of the process are the crucial enablers of the tw-way communication process. The presence of these attributes is likely to facilitate communication and a shared understanding of the business strategy, technology, people and the process on both sides of the dyad – the client and the vendor. Shared understanding is crucial for successful, iterations of the process life cycle and ultimate maturity of the process, yielding individual and organizational benefits to the client and enabling the vendor to eventually make the transition as a BPM service provider with repeated success. Thus, an emergent perspective is seen in terms of the vendor's ability to develop trust and faith in the relationship with communication aided by vendor's domain knowledge of the client's business and IT expertise. The technology perspective is the client and vendor's understanding of the potential of IT (current BPM suites available and their integration with the extant IT architecture) to shape the business strategy. Based on the findings from the literature review, we propose an a-priori conceptual research model as shown in Figure 1.
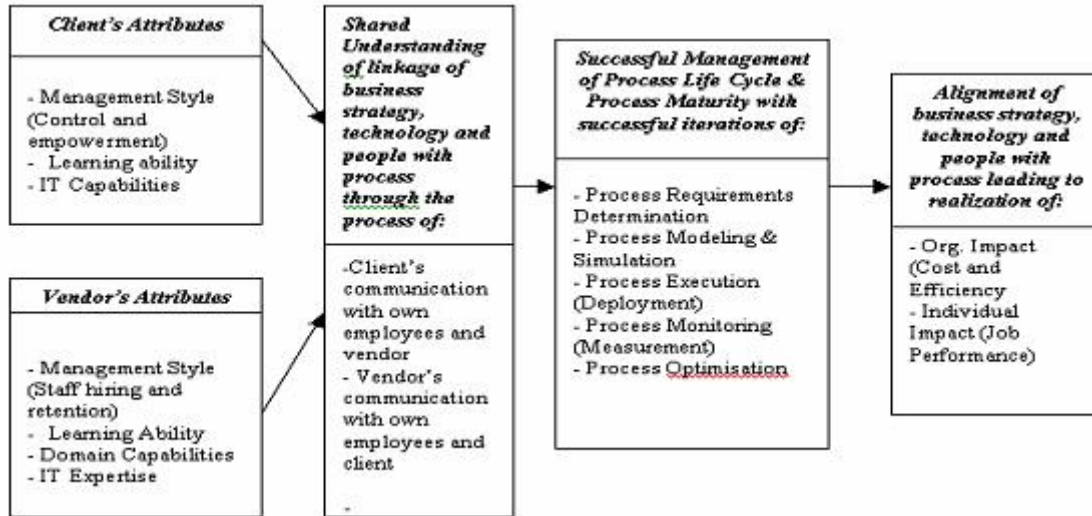
Figure 1 - Conceptual Model of Vendors' Success an a BPM Initiative

The theoretical propositions derived from the conceptual model are as follows:

Proposition 1: Vendor attributes in themselves may not lead to effective interaction and communication between the vendor and the client unless matched by complementary client attributes

Proposition 2: Vendor can develop shared understanding of business strategy, technology, process and people with effective and intensive communication between the client and the vendor and other process stakeholders.

Proposition 3: Vendor' high shared understanding will lead to successful execution of the process life cycle stages and alignment of the business strategy, technology, process and people, generating organizational and individual benefits from BPM initiatives.

MODEL VALIDATION

We attempt to validate the proposed model with the content analysis of an interview conducted in December 2005 with the CEO, VP Operations and the Technical Director of the Indian operations of a US firm providing BPO services. The three-member team interviewed provided a rich perspective of the organization's move into the BPM market. The interview, based on a combination of open-ended and some semi-structured questions guided by the conceptual model, lasted for about two hours and was tape-recorded and transcribed to a case story. We analyse the case to assess the extent to which it provides evidence in support for our conceptual model and also to understand dis-confirmatory evidence, if any. Segments of the case narrative are presented as normal text and our analysis of the case segments are presented in italics.

CASE NARRATIVE AND ANALYSIS

The CEO mentioned that the company presently did back-end processing jobs in the areas of finance and accounting such as invoice generation, accounting reports generation etc. and human resources such as employee data and records management. He mentions, 'We are not into stuff like call-enter operations for telemarketing or customer support etc. We do non-voice based business processing work at the moment but now we are moving into knowledge based process consulting.' In fact that is the only way for us to survive because there is fierce competition now in the traditional business process area where we just work as the back-end office of the overseas client. Cost wise we can't beat some of the vendors in Philippines, Vietnam, Russia. They have the same skill sets we have and so we have to add more value now to our services to remain competitive'.

The VP Operations explains knowledge based consulting as follows: 'Take invoice generation that we are now doing, for example. The client felt that in this process there was no need for any process innovation. But we studied their process and suggested some changes supported by technology whereby the number of transactions and time for generating an invoice reduced significantly. The CEO says, 'it meant a little less money for us but the client was happy. This led to a close partnership with the client. Now the client has offered us to consult on changing the internal processes in their company to become compliant with the Sarbanes Oxley act. It is a big challenge for us. We are learning and with the help of our more experienced people at the US corporate office, we have been able to execute a pilot study with the help of the same

Teamworks software that their technical staff was working with. The Technical Director added 'We had explored the software in depth and we could demonstrate its full potential to their technical team who were to be a part of the new BPM project'.

*It is evident from the above that the vendor's expertise with technology was a factor that provided confidence to the client and resulted in the client's decision to move to BPM related initiative. However the client's familiarity with Teamworks software was also a factor that facilitated the interaction. This **validates proposition 1**. The vendor's communication with the technical people in the client's organization helped in enhancing the perceptions of IT capability of the client's employees and is argued to have led to a shared understanding of the technology. **This validates proposition 2**. It is also evident that the vendor's domain and IT expertise helped in communicating (demonstrating the new process) to the client that contributed to the award of the BPM contract. Thus domain knowledge and IT capability are important attributes that the vendor must possess in order to communicate effectively with the client and client's employees, leading to a shared understanding and mutual confidence. Thus **both proposition 1 and 2 appear to be supported. .***

The problems in the move to process consulting are numerous he says. 'We were approached by one client to do a complete study of their internal business operations and suggest changes for improvements. The problem with the client was that they could not identify their core processes where they had the maximum competitive advantage. We have domain competence in their area so we helped them do a customer survey to identify what customers felt was the value that other players in the same line of business failed to provide them. That enabled them to identify the core processes. Then we started work on the core processes and found there were redundancies that could be eliminated. The client agreed on the redundancies we demonstrated. There was further problem because employee roles changed and some employees were unhappy. They felt they would be exposed to more risks in the new process that made them more accountable with access to some aspects of the process. The deployment was only possible after intense communication between the top management and the employees concerned. We also tried to convince the affected client's employees. 'Your job becomes more sophisticated with the new process and technology and it makes your experience more marketable we said. You don't need to do mundane transaction entry. You will be doing 'intelligent' work. That is how we tried to convince them' he mentions.

*The analysis of this fragment of the case indicates that the ability of the client to communicate business goals to the vendor is crucial for a shared understanding of the organizations goals. Both the client and the vendor agreed to the identified redundancies, indicating shared understanding. **This partly validates propositions 1 and 2**. It is also evident that the ability of the client to motivate the people affected with the changed process and align them to the changed process is crucial for the success of a BPM initiative. This validates the need for client to have a management style that can maintain a balance of control and empowerment, as shown in our conceptual model, again **supporting both propositions 1 and 2**.*

The Technical Director was asked to rate the importance of technology in the BPM initiative. He mentions ' I feel technical expertise is crucial. Our expertise with BPM software and integration knowledge with client's third-party applications helps us to win confidence of the vendor. Then it depends on the client also. In one instance, our client wanted fragmented modules so that their technical team could tie them up to modify the re-engineered proceses. Now with XML and middlewares, even business analysts in the client organization with a basic understanding of XML can integrate most applications, if they are motivated to learn from us. So it was necessary to understand each other about their business requirements and the way they wanted to execute the process (he mentions it was a financial process). But we had to provide them BPM front-end connectivity to their third-party PeopleSoft application. We simulated some imaginary scenarios and asked their business analyst to see if they were comfortable making changes to the business rules on the process software. We found they were not comfortable and neither was their VP Finance who co-ordinated the BPM project inclined to pass such responsibility to the business analyst. So we run minor changes for them. They are happy with the present functioning of the process. The clients who are served by the process have given satisfactory survey reports to the client does not want any more changes, except minor modifications.

*The indication is that technical expertise of the vendor is crucial to successful execution of the project, as is the client's understanding of the technology's potential. Apparently the communication on technological aspects resulted in a high level of shared understanding of the technology that helped in the requirements determination, simulation, execution and optimization phases of the life cycle. The vendor's technical people, the technology, and the client's employees were all aligned to the process, indication a certain level of process maturity. The satisfaction of the client indicates that the process had technology, people, and business in alignment and that led to efficient execution of the process life cycle stages and client's customer satisfaction as well as organizational satisfaction from survey reports. **Thus all of propositions 1,2 and 3 appear to be supported.***

In regard to the factors considered crucial to the successful execution of a BPM initiative, the VP Operations mentions as follows:

I have seen that initially, during the negotiation stage (we call it bidding stage), a relationship of mutual trust and confidence needs to develop. We therefore try to be very transparent with them. We show them our cost structure and we make a clean breast of things. The open nature of communication about how we work and our domain and technical competence that we demonstrate through a pilot as a proof of concept helps us build this relationship. The client feels comfortable with such approaches. So when we draft the service level agreements, they are realistic and achievable. Moreover, when the initial relationship is built, the client is willing to go that extra mile. I mean it is not always that we meet the service levels or budgets. We did have overruns in some initial BPO projects that we executed but we went and told the clients about our problems. We even told them we will not charge anything extra but just give us this extra time. More often, the overrun was on account of the client's inability to firm up the initial process, or getting their staff to co-operate in the process modeling and simulation. But with a good appreciation of the technology, the people on both sides and ability to control them, the business objectives, it becomes easier to go through the different stages of the BPM project.

*The stress is on relationships and shared understanding developed with open communication and skills on both, the client and the vendor sides. There is support for the attributes shown in our conceptual model in respect of the client and the vendor. The development of shared understanding is found to depend on these attributes, **supporting proposition 1.** There is also **support for proposition 2**, indicated by the fact that the execution of the process life cycle stages is a function of the level of shared understanding. There is further evidence that the client and vendor attributes may have different impacts at different stages of the process life cycle.*

Thus there is supporting evidence for the propositions derived from the conceptual model. Based on the findings from the case, we may say that for a vendor to make successful transition from BPO to a BPM service provider, both the vendor and the client need to have attributes that complement each other. Possession of these attributes helps in effective communication, a crucial factor in the process of developing a shared understanding and confidence. Both vendor's and client's shared understanding enables successful execution of the process life cycle stages, eventual alignment of the technology, business strategy and people to the process and realization of benefits for the organization.

CONCLUSION

The competitive business landscape is forcing companies to upgrade their business processes. However, most companies realise realized that they do not have all the skills to automate the large number of processes required, or deal with the rapid change cycle essential for today's on-demand business conditions. As companies move to off-shoring their BPM, vendors may be able to take advantage of this business opportunity. However, for vendors to be able to make the transition from traditional to more knowledge based process consulting, both the vendor and the client must have complementary skill sets to develop a shared understanding and alignment of the business strategy, technology and people with the process. Our study would help practitioners (those engaged in BPM either in the vendor or client roles) to understand the BPM process and the manner in which a BPM project may be successfully executed.

The study has a limitation in that the findings are based on evidence from only one case. There is another limitation arising from the fact that only the vendor perspective has been captured and analysed. Therefore, the findings may not be generalised. However the theoretical foundation developed in this paper finds some support from the single case and leaves the conceptual foundation open for further scrutiny and enhancements/modifications with further studies. With structural shift in the BPO industry from traditional BPO to knowledge process consulting (BPM), specialist vendors with domain expertise and knowledge of best practices in a particular industry may dominate, thus making it difficult for new BPO entrants to make the transition to BPM. The scope of the smaller firms in the BPM scenario could be an area for future research. There may also be vertical mergers of specialist vendors in certain industry segments in the nature of consortia, thus making the playing field more uneven. The relative importance of the skill sets of the vendor and the client at different stages of the process life cycle and its impact in the execution of the BPM project could be another area for future research.

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